

## Message Text

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ACTION EA-09

INFO OCT-01 ISO-00 FEA-01 ERDA-05 AID-05 CEA-01 CIAE-00

CIEP-01 COME-00 DODE-00 EB-07 FPC-01 H-02 INR-07

INT-05 L-03 NSAE-00 NSC-05 OMB-01 PM-04 USIA-06

SAM-01 OES-03 SP-02 SS-15 STR-04 TRSE-00 PA-01 PRS-01

/091 W

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R 060640Z JAN 76

FM AMCONSUL HONG KONG

TO SECSTATE WASHDC 8603

INFO AMEMBASSY SINGAPORE

AMEMBASSY TOKYO

USLO PEKING

C O N F I D E N T I A L HONG KONG 0141

E.O. 11652: GDS

TAGS: ENRG, CH, US

SUBJECT: US OIL COMPANY SEEKS PURCHASE OF PRC CRUDE

REF: (A) 75 HONG KONG 15157; (B) 75 HONG KONG 14658

1. SUMMARY: CALTEX DIRECTOR IN HONG KONG TELLS US THAT JAPANESE PRESS REPORTS, CARRIED RECENTLY IN HONG KONG NEWSPAPER (SEE REF A) CLAIMING "US OIL INTRESTS " WERE NEGOTIATIONG WITH THE PRC FOR THE IMPORT OF CRUDE TO THE US, PROBABLY REFER TO DISCUSSIONS INITIATED BY CALTEX FOR THE PURCHASE OF PRC CRUDE-- ALTHOUGH NOT FOR THE US MARKET.  
END SUMMARY

2. HE SAID THAT IN INTERMITTENT DISCUSSIONS WITH PRC SINCE OCTOBER 1973, CALTEX PROPOSED AN INITIAL PURCHASE OF ABOUT 500,000 TONS OF TACHING CRUDE. THE PRC COUNTERED WITH AN OFFER OF SHENGLI CRUDE, WHICH CALTEX DOES NOT PREFER, BUT COULD HANDLE. AT THE PRESENT STAGE, DISCUSSIONS  
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ARE CONTINUING IN A DESULTORY FASHION IN HONG KONG

THROUGH CHINA RESOURCES COMPANY (CRC), THE PRC'S LOCAL REPRESENTATIVE.

3. A BREAK COULD COME THIS SPRING WITH THE TENTATIVELY-SCHEDULED VISIT TO PEKING BY CALTEX CHARIMAN VOSS (SEE REF B) FOR EARLIER REPORT OF VOSS' DIFFICULTIES IN VISITING PEKING). A MAJOR OBSTACLE TO CONCLUDING AN AGREEMENT HAS BEEN THE DIFFICULTY IN GOING THROUGH CRC, WHICH THE CALTEX OFFICIAL DESCRIBED AS " ONLY A MAIL DROP", HE STATED CRC HAD BEEN UNABLE TO OBTAIN SATISFACTORY ANSWERS TO SOME OF THE MOST SIMPLE AND BASIC QUESTIONS, SUCH AS CONFIRMATION THAT NET TONNAGE (CRUDE MINUS SLUDGE AND WATER) WOULD FORM THE BASIS FOR PAYMENT AS IS STANDARD WORLD PRACTICE AND AS IS BEING FOLLOWED BY THE PRC IN ITS TIL SALES TO JAPAN.

4. A FURTHER PROBLEM HAS ARISEN OVER PRC SENSITIVITY TO WHERE THE CRUDE IS SHIPPED FOR REFINING. CALTEX PROPOSALS FOR SHIPMENT TO SOUTH KOREA OR SOUTH AFRICA, WHERE CALTEX REFINERIES COULD HANDLE THE HEAVY TYPE OF PRC CRUDE, WERE (NOT SUPRISINGLY) REJECTED BY THE PRC. CALTEX DIRECTOR STATED THAT OTHER POSSIBILITIES, INCLUDING JAPAN AND SINGAPORE, WERE BEING STUDIED. (CALTEX DOES NOT HAVE A REFINERY IN SINGAPORE AND WOULD HAVE TO WORK OUT A SWAP ARRANGEMENT WITH ANOTHER OIL COMPANY). CALTEX INTEREST IN BUYING OIL FOR AN AUSTRALIAN SUBSIDIARY (REF B) SUGGESTS ANOTHER REFINING POSSIBILITY.

5. AS FOR PRC CRUDE EXPORTS TO THE US, THE CALTEX OIL OFFICIAL WAS AWARE OF THE DIFFICULTIES INVOLVED, IN PARTICULAR POOR PRC PORT CAPACITY, BUT WAS OPTIMISTIC ABOUT THE LONG-TERM PROSPECTS. HE SAID THAT ANY OIL AGREEMENT REACHED BY CALTEX WITH THE PRC WOULD HAVE IMPORTANT IMPLICATIONS FOR FUTURE US-PRC TRADE AND WOULD BE WATCHED CLOSELY BY CALTEX' US PARENT COMPANIES, TEXACO AND STANDARD OF CALIFORNIA, AS A TEST RUN FOR IMPORTS TO THE US.

6. CALTEX DIRECTOR IN HONG KONG CAUTIONED CONGENOFF ABOUT CALTEX' SENSITIVITY TO DISCLOSURE OF THIS INFORMATION AND CONFIDENTIAL

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ASKED THAT IT BE HELD IN STRICT CONFIDENCE.

7. COMMENT: WE ARE CONTINUING TO EXPLORE FOR OTHER INDICATIONS OF POTENTIAL US-PRC OIL DEALS. ALTHOUGH ADDITIONAL US OIL COMPANIES, MAY BE SEEKING SIMILAR ARRANGEMENTS (MOBIL, FOR ONE, HAS PREVIOUSLY DISCUSSED THE POSSIBILITY OF PURCHASING PRC CRUDE FOR MARKETING IN ASIA), IT WOULD APPEAR THAT CALTEX HAS COME CLOSEST TO CONCLUDING A DEAL AND IS

PROBABLY THE SUBJECT OF THE RUMORS SURFACING IN JAPAN.  
CROSS

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